



**UNITED STATES DEPARTMENT OF EDUCATION**  
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

March 16, 2017

**FINAL MANAGEMENT INFORMATION REPORT**

To: Tim Soltis  
Delegated to Perform the Duties and Functions of the Chief Financial Officer  
Office of the Chief Financial Officer

From: Patrick J. Howard /s/  
Assistant Inspector General for Audit

Subject: Management Information Report on State Oversight of Local Educational  
Agency Single Audit Resolution  
Control Number ED-OIG/X09Q0006

Dear Mr. Soltis:

The purpose of this final management information report is to highlight several areas of concern related to State educational agency (SEA) oversight of local educational agency (LEA) single audit resolution and recommend action that the U.S. Department of Education (Department) should take to improve SEA implementation of this important oversight function. Our objective was to identify common weaknesses and positive practices that the Department should communicate to SEAs to improve oversight of LEA single audit resolution nationwide. In this report, we use the term “audit resolution” to refer to all activities that are needed to ensure that LEA single audit findings are fully and appropriately corrected.

We obtained the information presented in this report from audits we conducted in Illinois, Massachusetts, and North Carolina. The audits covered SEA oversight activities related to correcting LEA single audit findings reported during fiscal years (FYs) 2011–2014.<sup>1</sup> Even though the results from the individual State audits cannot be projected to all States because we judgmentally selected the States for audit, we identified certain common and significant weaknesses in SEA oversight of LEA audit resolution that could exist at other SEAs. To assist SEAs in effectively performing this critical oversight function, the Office of the Chief Financial Officer (OCFO) should issue detailed guidance to SEAs describing their responsibilities associated with oversight of LEA single audit resolution. The guidance could also address

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<sup>1</sup> The specific years covered by each of the three audits varied; see the Objective, Scope, and Methodology section of this report for further information about the audit reports.

several positive practices implemented by one SEA we audited that other SEAs could consider implementing to enhance their oversight effectiveness.

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## BACKGROUND

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The Single Audit Act of 1984 established uniform audit requirements for State and local governments (recipients and subrecipients) that receive Federal financial assistance. Office of Management and Budget Circular A-133, issued pursuant to the Single Audit Act and its amendments, set forth the standards for single audits of States and local governments spending Federal awards during the period covered by our audits. In December 2013, the Office of Management and Budget published final regulations for Uniform Grant Guidance (Title 2 of the Code of Federal Regulations (C.F.R.)), which consolidated and superseded requirements from eight circulars, including A-133. Part 200 of the Uniform Grant Guidance streamlined the administrative requirements, cost principles, and audit requirements for Federal awards and became effective for recipient and subrecipient fiscal years beginning on or after December 26, 2014.<sup>2</sup> We cited the requirements of Circular A-133 in our State audit reports because it was in effect during our audit period. The requirements of Circular A-133 for SEA oversight of LEA single audit resolution that we cited in the State audit reports continue to be in effect under the Uniform Grant Guidance. We cite the Uniform Grant Guidance in this report because it is the applicable guidance related to single audit resolution going forward.

As pass-through entities, SEAs are responsible for distributing Department grant funds to subrecipients and overseeing the use of those funds. The Department awarded an average of about \$33 billion per year in Federal elementary and secondary education funding to the 50 States during FYs 2012–2015. The Uniform Grant Guidance specifies the responsibilities of SEAs related to the administration of Federal awards. In their oversight role, SEAs are responsible for advising LEAs of the requirements associated with the use of Federal funds; monitoring LEAs' use of Federal funds to ensure they comply with applicable laws, regulations, and grant agreements; and ensuring that LEAs achieve program goals. SEAs must also ensure that any LEA spending \$750,000 or more of Federal funds in a fiscal year has a single audit performed. The Uniform Grant Guidance also requires SEAs to oversee the resolution of LEA single audit findings and ensure that LEAs take timely and appropriate action to correct findings. As part of the audit resolution process, SEAs must evaluate each LEA's audit findings and corrective action plans and issue a written decision (called a management decision) to the LEA. Among other things, the management decision should advise the LEA whether its proposed corrective actions are acceptable and, if not, describe additional or alternative corrective actions that the LEA must take. The Uniform Grant Guidance includes detailed requirements for the content of the management decision, the timeframe for its issuance, and related SEA responsibilities.

According to the Uniform Grant Guidance, the auditee (SEA or LEA) is primarily responsible for responding to its audit findings and taking corrective action. This responsibility includes developing a corrective action plan to address each current-year finding and a schedule of

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<sup>2</sup> The Department adopted the Uniform Grant Guidance on November 2, 2015.

prior-year findings that describes the status of each prior-year finding. For unresolved prior-year findings, the auditee must describe any corrective action that it has taken to date and what remaining corrective actions it has planned. For subrecipient audits, the SEA has an oversight role and must ensure that the LEA's planned corrective actions are appropriate and implemented timely. SEA and LEA officials must have a shared commitment to correcting LEA audit findings for the audit resolution process to be successful.

The Department has an oversight role and is responsible for helping to ensure that SEAs effectively oversee the resolution of LEA audit findings. Under Section 9204 of the Every Student Succeeds Act of 2015, the Department is required to notify each SEA of its responsibility to (a) comply with all monitoring requirements under the applicable program or programs and (b) properly monitor LEAs. OCFO plays a central role in coordinating the Department's audit resolution process, including working with program offices to resolve single audit findings at SEAs. This office was responsible for resolving the findings resulting from our audits of the three SEAs.

Our audits of Illinois, Massachusetts, and North Carolina assessed each SEA's activities related to oversight of LEA single audit resolution. Our audit work included interviewing SEA staff responsible for oversight of LEA audit resolution and reviewing associated policies, procedures, and other internal documentation. We requested the management decisions that the SEAs issued for selected LEA audit findings<sup>3</sup> and tested them for compliance with regulatory requirements on content and timeliness. We also evaluated approved corrective action plans for the LEA findings to determine whether they were appropriate to correct the underlying cause of the findings. Finally, we interviewed officials at four to six judgmentally selected LEAs in each State to gain additional information about their single audit findings and the nature and extent of the SEAs' involvement in the audit resolution process.

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## RESULTS

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The results of our audits in three States indicate a need for the Department to take additional steps to help ensure that all SEAs are effectively carrying out their responsibilities for oversight of LEA single audit resolution. Our work identified significant variation in the quality of oversight from one SEA to another, and two of the SEAs we audited had significant weaknesses in their oversight activities. Our results are based on the three SEAs covered by our audits. However, it is likely that other SEAs could have similar weaknesses that adversely affect their ability to properly oversee LEA single audit resolution.<sup>4</sup> It is important that SEAs address any weaknesses in their oversight activities promptly because their oversight of LEA audit resolution is a critical control that helps safeguard Federal education funds and ensure that education programs operate in compliance with Federal requirements.

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<sup>3</sup> In this report, "audit finding" refers to a compliance finding for a Federal education program reported in the single audit, unless otherwise stated.

<sup>4</sup> We reviewed LEA single audit findings data for States nationwide and found that many States had numerous LEAs with at least one finding that repeated for 3 or 4 years during FYs 2010 to 2013.

None of the three SEAs covered by our audits issued management decisions that met all Federal requirements. Deficiencies that we reported included not issuing management decisions for some or all LEA findings and issuing management decisions that did not include all required content. Two SEAs generally did not ensure that LEAs took appropriate corrective actions to resolve the underlying cause of the findings. Two of the SEAs also did not communicate effectively with LEAs during the audit resolution process. Finally, all three SEAs had internal control weaknesses related to their oversight activities. The control weaknesses included not assigning overall responsibility for managing the SEA's oversight of LEA audit resolution to a specific unit, incomplete or outdated policies and procedures, inadequate tracking systems for LEA finding resolution, and lack of a quality assurance process to periodically assess the effectiveness of the SEA's processes for overseeing LEA audit resolution.

Although we found weaknesses in all three SEAs we audited, we also identified a number of positive practices that one SEA implemented to help ensure timely and appropriate resolution of LEA findings. Other SEAs could also implement these practices to strengthen their oversight of LEA single audit resolution. For example, SEAs can issue enhanced management decisions that require LEAs to take additional actions to ensure prompt resolution of repeat findings. SEAs can also issue management decisions for financial statement findings to help ensure LEAs take corrective action on those findings, establish an earlier deadline for submission of single audit reports to expedite correction of reported findings, and ensure that LEA action officials receive management decisions covering findings they are responsible for resolving. Table 1 summarizes our audit results in each State.

**Table 1. Summary of OIG Audit Results in Three States**

Did the SEA...	State 1	State 2	State 3
Issue a management decision for <i>every</i> finding covered by our audit?	No	No	No
Issue a management decision for <i>any</i> finding covered by our audit?	Yes	Yes	No
Issue management decisions that included all required content?	No	No	No
Generally ensure that LEAs take appropriate corrective actions?	No	Yes	No
Communicate effectively with LEAs about audit resolution?	No	Yes	No
Place extra emphasis on the resolution of repeat findings?	No	Yes	No
Have a tracking system for resolution of LEA audit findings?	No	Yes	No
Have adequate policies and procedures for its oversight of LEA audit resolution?	No	No	No
Have a quality assurance process for its oversight of LEA audit resolution?	No	No	No

We made a variety of recommendations to OCFO in our State audits that would require the SEAs to bring their oversight of LEA single audit resolution into compliance with applicable Federal requirements, improve associated internal controls, and better ensure that LEA audit findings are appropriately and timely resolved. Two of the three SEAs agreed with most or all of our recommendations. The third SEA did not state whether it agreed or disagreed with our

recommendations, but stated that it would review the recommendations and improve its oversight processes.

This report recommends action the Department should take to improve SEA oversight of LEA single audit resolution. Specifically, we recommend that the Department develop and issue detailed guidance to all SEAs describing their oversight responsibilities in accordance with the Every Student Succeeds Act of 2015 and the Uniform Grant Guidance. This guidance should emphasize the importance of timely and appropriate LEA single audit resolution and clearly describe SEA oversight responsibilities, including potential weaknesses that SEAs should correct and positive practices to adopt where feasible. We also include a matter for consideration related to the Department's efforts to ensure that SEAs effectively oversee LEA single audit resolution.

We provided a draft of this report to OCFO for review and comment. In its comments, OCFO agreed with our results and recommendation. We summarized OCFO's comments at the end of the results section and included the full text of the comments as Attachment 2 to this report. We did not make any changes to this report based on OCFO's comments.

### **Weaknesses That Other SEAs May Need to Address**

**Ensuring LEAs take appropriate corrective actions.** Two SEAs we audited generally did not ensure that LEAs took corrective actions that were appropriate to correct the underlying cause of their findings. We reviewed corrective action plans for 31 findings in one State and 54 findings in the other State. The SEAs in these two States approved the corrective action plans associated with 83 of the 85 findings. One of the SEAs did not state whether the corrective action plans for the remaining 2 findings were appropriate or include a description of any other required corrective actions for those findings. We evaluated the approved corrective action plans to determine whether they were appropriate (we defined "appropriate" corrective action as clear and specific actions that could reasonably be expected to correct the underlying cause of the finding). We determined that only 15 (18 percent) of the 83 SEA-approved corrective action plans were appropriate.<sup>5</sup>

Many LEAs in the two States had findings that repeated for multiple years. In many instances, the LEA corrective action plans for repeat findings covered by our audits did not describe any specific steps that the LEAs would take to correct the underlying cause of the findings. The LEAs submitted the same corrective action plans each year and the SEAs approved them without requiring any changes or improvements.

Identifying appropriate corrective actions is a pivotal step in the SEA's oversight of LEA audit resolution and is required by 2 C.F.R. § 200.331(d)(2) and (3). The SEA should begin by evaluating the LEA's corrective action plan in the audit report, along with the details of the audit finding and the auditor's recommendation. In some cases, the corrective action plan may not be appropriate and SEA officials will need to work with LEA officials to ensure that appropriate corrective action is taken. Ultimately, the SEA may require the LEA to implement the corrective action plan as stated in the audit report, implement the corrective action plan with modifications or additional steps, or discard the existing corrective action plan and develop a new one. Each of

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<sup>5</sup> Ten of the 29 approved corrective action plans in one State and 5 of the 54 approved corrective action plans in the other State were appropriate to resolve the underlying cause of the findings.

these options requires the SEA to thoroughly assess the available information, and in many cases, communicate with LEA officials.

Determining appropriate corrective action for repeat findings is especially important. The Uniform Grant Guidance includes a new provision that draws additional attention to repeat findings and reinforces the need for timely and appropriate resolution. According to 2 C.F.R. § 200.511(b)(2), when an LEA has not fully corrected a prior-year audit finding, the LEA must describe the reasons for the finding's recurrence in its summary schedule of prior audit findings.

**Communicating with LEA officials throughout audit resolution.** Two of the three SEAs we audited did not communicate effectively with LEAs during the audit resolution process. Effective communication involves open and ongoing dialogue with LEA officials and may include contacting LEA officials to determine what corrective actions are appropriate, ensure that LEAs have timely implemented the corrective actions, or determine why particular findings have repeated and identify and eliminate barriers to resolution. In one State, responsibility for overseeing resolution of LEA audit findings was shared by numerous program divisions at the SEA. Officials with three of the five units that were responsible for the resolution of the findings covered by our audit said that they contacted the LEAs to discuss corrective actions. However, only one unit provided evidence of this communication, which was limited to confirmations of the corrective action plan from the audit report.

In the other State with ineffective communication, one unit at the SEA issued about 80 percent of the management decisions to LEAs. This unit's management decisions stated that it had conversations with LEA officials about their corrective action plans before issuing the decisions. However, the unit did not provide evidence that any communication had occurred, and officials at the LEAs that received the management decisions said that the SEA had not contacted them about the resolution of their findings. Additionally, officials in each of the SEA units that had an oversight role in LEA single audit resolution said that they generally did not follow up on the status of corrective actions after they issued management decisions.

We interviewed officials responsible for audit resolution at six LEAs with findings that had repeated for 3 or more years in each of these two States. All of the LEA officials said that their respective SEA had not contacted them regarding the resolution of these repeat findings during our audit period.

Communication between the SEA and LEA becomes even more critical when the LEA's findings have significant monetary or program impacts, relate to significant control weaknesses, or repeat for multiple years. For example, an LEA in one State had a finding that it was charging an excessive indirect cost rate to Federal grants. Auditors first reported the finding in FY 2010 and it remained unresolved in the LEA's FY 2014 single audit report (the most current report available at the time of our audit). The auditors identified nearly \$2 million in total questioned costs during that period. Officials at the LEA responsible for resolving this audit finding stated that the SEA had not contacted them about resolving the finding. Further, the SEA did not provide evidence that it had contacted LEA officials or taken any action to resolve the finding other than issuing management decisions to the LEA each year. The SEA's management decisions approved the LEA's corrective action plans even though the LEA did not plan to take any action to correct the finding.

Effective communication is a key component to ensuring that findings are resolved promptly and properly. When communication related to audit resolution is lacking, the inappropriate use of Federal funds and noncompliance with Federal fiscal or program requirements may continue unchecked year after year. Additionally, in some cases, SEAs may not collect significant sums of Federal funds that are due back to the U.S. Treasury. Finally, when LEA audit findings remain unresolved for many consecutive years, it indicates that a weak control environment may exist that could create opportunities for fraud, misappropriation, waste, or abuse.

Circular A-133 did not specify the degree of outreach and communication that SEAs should have with LEAs related to single audit resolution and did not have a specific requirement for SEAs to follow up on the status of LEA audit resolution. However, proactive and cooperative engagement with LEA officials facilitates the audit resolution process by enabling the SEA to ensure that LEAs take corrective actions that are both timely and appropriate. The Uniform Grant Guidance includes a new requirement on SEA follow-up with LEAs. Specifically, 2 C.F.R. § 200.331(d)(2) requires SEAs to follow up and ensure that LEAs take timely and appropriate action on all audit findings.

The Department's guide on cooperative audit resolution provides guidance on improving communication and interaction during the audit resolution process. It states that oral communication between the auditee and oversight agency is an essential component of audit resolution and that complex or repeat findings may require full and open dialogue among all participants on a continuing basis. Although the guide targets cooperation between Federal and State agencies when resolving State-level audit findings related to Federal programs, it states that SEAs and LEAs can also apply the tenets of cooperative audit resolution. Principles of cooperative audit resolution are also included in the Uniform Grant Guidance as a requirement for Federal agencies. According to 2 C.F.R § 200.25, "[c]ooperative audit resolution means the use of audit follow-up techniques which promote prompt corrective action by improving communication, fostering collaboration, promoting trust, and developing an understanding between the Federal agency and the non-Federal entity." The same cooperative audit resolution techniques can promote effective resolution of LEA single audit findings when carried out by SEAs and LEAs.

**Issuing management decisions that meet Federal requirements.** None of the three SEAs we audited issued management decisions that met all Federal requirements. One SEA did not issue management decisions for any of the LEA audit findings covered by our audit. The remaining two SEAs issued management decisions for many, but not all, of the LEA findings covered by our audits. However, the management decisions that the two SEAs issued did not include all content required by Federal regulations. Table 2 below summarizes the results of our analysis of management decisions for the three SEAs.

**Table 2. Summary of Management Decision Analysis for the Three SEAs**

SEA	Total number of LEA findings covered by our audit	Number of findings for which a management decision was issued	Number of management decisions that met all content requirements
1	42	39	0
2	31	22	0
3	54	0	0

The management decision is the official mechanism for the SEA to communicate with the LEA regarding the resolution of findings, and as such is a critical part of the audit resolution process. According to 2 C.F.R. § 200.331(d)(3), the SEA must issue a management decision for all audit findings pertaining to the Federal awards it makes to its subrecipients. The management decision is defined by 2 C.F.R. § 200.66 as the evaluation of the audit finding and corrective action plan by the SEA and issuance of a written decision informing the LEA what corrective action is necessary. The specific content requirements for management decisions are described at 2 C.F.R. § 200.521(a). The management decision must state whether the SEA has sustained the finding and the reasons why or why not. It should also confirm the appropriateness of the LEA's planned corrective actions or identify additional or alternative corrective actions for the LEA to take. If the LEA has not yet implemented corrective actions, the management decision should include a timetable for follow-up related to implementing the corrective actions. It should also identify any appeal process available to the LEA to dispute the SEA's decision on the finding and required corrective actions.

Two of the SEAs we audited were aware of the content requirements for management decisions but still did not issue decisions that met all requirements. One SEA cited the Circular A-133 content requirements for management decisions in its policies and procedures covering oversight of LEA audit resolution but did not issue a management decision for any of the LEA findings covered by our audit. For the other SEA that issued management decisions that met some, but not all, of the content requirements, those officials stated that they understood the content requirements for management decisions and that their management decisions met the applicable requirements.

**Establishing effective internal control over LEA audit resolution.** Each of the three SEAs we audited had internal control deficiencies that were the underlying cause of the SEAs' weaknesses related to oversight of LEA single audit finding resolution. The control deficiencies included not assigning responsibility for the LEA audit resolution oversight function to a single unit within the SEA, inadequate policies and procedures covering the SEA's oversight activities, inadequate systems for tracking LEA progress in resolving audit findings, and a lack of quality assurance procedures to ensure the SEA maintains proper oversight of the LEA audit resolution process over time.

The Uniform Grant Guidance contains new provisions that strengthen internal control requirements for SEAs by explicitly describing their internal control responsibilities. According to 2 C.F.R. § 200.303(a), the SEA must establish and maintain internal controls to provide reasonable assurance that it is managing Federal awards in compliance with all applicable requirements, including Federal statutes, regulations, and the terms and conditions of grant agreements. Additionally, the Uniform Grant Guidance requires SEAs to comply with the U.S. Government Accountability Office's "Standards for Internal Control in the Federal Government" (known as the Green Book) and the Committee of Sponsoring Organizations of the Treadway Commission's "Internal Control-Integrated Framework" (COSO Framework). The COSO Framework identifies five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring) that must be adequately designed, implemented, and operating in an integrated manner for internal control to be effective. The Green Book incorporates the concepts of the COSO Framework and adapts them for a government environment.



*Assigning overall responsibility for oversight of LEA audit resolution.* The two SEAs covered by our audits that had the most significant weaknesses in oversight of LEA audit resolution had not assigned overall responsibility or accountability for this function to any single unit. Instead, responsibility for various aspects of SEA oversight was divided between multiple SEA units, and no single unit had the authority to oversee the entire audit resolution process. As a result, no unit was tasked with managing the entire process to ensure that the SEA met its regulatory oversight responsibilities and that all LEA findings were corrected timely and appropriately.

An organization's control environment provides the foundation for effective internal control. According to the Green Book, to establish an effective control environment, management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. When the control environment is weak, such as when overall responsibility for oversight of LEA audit resolution has not been assigned to a specific unit that has the authority to manage and oversee all aspects of the function, the effectiveness of all five components of internal control can be undermined.

*Policies and procedures.* Each SEA we audited had some form of policies and procedures related to oversight of the LEA single audit process. However, all of the policies and procedures had significant weaknesses. For example, one SEA's policies and procedures described activities related to receiving LEA audit reports and reviewing them for completeness but did not cover the SEA's activities for overseeing the audit resolution process and ensuring that all findings were corrected timely and appropriately. Another SEA had policies and procedures that cited selected oversight requirements of Circular A-133 and covered some, but not all, of the SEA's key activities for oversight of LEA audit resolution. However, the policies and procedures were not distributed to the SEA officials responsible for performing the oversight. The last SEA had outdated policies and procedures that did not reflect the SEA's current activities for overseeing LEA audit resolution.

Written policies and procedures are an essential component of effective internal control. According to the Green Book, management is responsible for designing policies and procedures to fit the organization's circumstances and incorporating them as an integral part of its operations. Policies and procedures provide staff with guidance that helps to ensure the SEA's oversight activities are carried out in accordance with regulatory requirements and also help provide continuity of operations if key personnel leave the organization.

Each SEA's policies and procedures for oversight of the LEA audit resolution process should be current, complete, and contain sufficient detail so that an SEA employee with only limited training could carry out the activities. Specifically, the policies and procedures should do the following:

- address all aspects of the SEA's process for overseeing LEA audit resolution, such as identifying appropriate corrective actions, issuing management decisions, tracking the resolution of findings, communicating and following up with LEAs, and escalating audit resolution activities for significant or repeat findings;
- clearly identify which SEA personnel are responsible for specific activities;
- contain specific instructions on how to perform required tasks, including a description of the order in which the oversight activities should be performed;
- contain templates for any forms that are used during the process; and

- include a requirement that the policies and procedures be reviewed periodically and updated to reflect any changes to the process.

*Tracking the resolution of LEA findings.* None of the SEAs we audited had an adequate system for tracking the resolution of LEA audit findings. Two SEAs had tracking systems for LEA findings, but they did not record the actual implementation status of corrective action at LEAs. One SEA's tracking system was designed to ensure that the SEA issued a management decision to each LEA with an applicable audit finding. This SEA did not track information related to the status of corrective actions for the LEA findings. In the other SEA, different units were responsible for tracking and resolving LEA audit findings. The unit that performed the tracking closed findings in the tracking system when the units responsible for resolution informed it that the LEA's corrective actions were implemented. However, we determined that the units responsible for audit resolution usually did not contact LEAs to verify that the LEAs had actually implemented the necessary corrective actions. As a result, this SEA closed findings in its tracking system before LEAs had implemented corrective actions. The third SEA covered by our audits had a tracking system for LEA audit resolution, but the system was not adequate because it did not track individual LEA findings or the status of corrective actions on a statewide basis or across multiple fiscal years.

Tracking the resolution of LEA audit findings is not explicitly required under the Uniform Grant Guidance. However, SEAs must establish an effective tracking system to fulfill their regulatory oversight responsibilities. For example, SEAs must be able to identify which LEA findings are unresolved before they can follow up with LEAs as required by 2 C.F.R. § 200.331(d)(2). Additionally, SEAs must know the current status of corrective actions for each audit finding before they can take appropriate steps to ensure that all findings are corrected timely and appropriately as required by 2 C.F.R. §200.331(d)(2). Tracking the status of findings is also an important component of an SEA's internal control over LEA audit resolution as it relates to risk assessments, control activities, and monitoring.

Without a comprehensive, multiyear system for tracking the resolution of individual findings, SEAs cannot easily identify specific findings reported at individual LEAs across the State, determine how many times each finding has repeated, or effectively follow up to ensure that LEAs take timely corrective actions. Each of the SEAs we audited lacked a valuable control mechanism that would allow them to periodically assess the pervasiveness of LEA risks of noncompliance with Federal requirements, the existence of systemic control weaknesses across LEAs, and the risk of improper payments.

An effective system for tracking LEA finding resolution would enable the SEA to maintain visibility over the status of corrective actions for each finding; ensure that individual findings are resolved timely and appropriately; and identify trends in findings across the State. The tracking system should track individual findings at each LEA, including finding number, description of the finding, how many years the finding has repeated (if applicable), and the status of corrective actions. It should be an integrated system that includes information on findings for all LEAs in the current and prior years to facilitate effective SEA oversight. Although two of the three States covered by our audits used spreadsheet software to track LEA audit findings, database software would provide significant benefits over spreadsheets, including improved data integrity, ease of entering and querying data, generating reports, and simultaneous access by multiple users. The SEA should not record an LEA finding as closed in its tracking system until the LEA has fully implemented all necessary corrective actions.

*Quality assurance.* None of the SEAs we audited had implemented any quality assurance process for the oversight of LEA single audit resolution. Quality assurance is an important part of the monitoring component of internal control. According to the Green Book, monitoring includes activities that management establishes and operates to assess the quality of performance over time, such as separate evaluations performed by both internal and external sources to provide feedback on the effectiveness of internal controls. Without a quality assurance process to evaluate their audit resolution oversight activities, States lack a mechanism to systematically detect and correct errors, control weaknesses, and noncompliance with regulatory requirements.

### **Positive Practices That SEAs Could Implement to Enhance Oversight Effectiveness**

During our State audits, we identified one SEA that had implemented several positive practices that other SEAs could also implement to help ensure more timely and effective resolution of LEA single audit findings. These practices are not required under current Federal regulations.

**Issuing enhanced management decisions for repeat findings.** Repeat single audit findings warrant additional attention by the SEA to ensure that they are promptly and appropriately resolved. As discussed earlier in this report, when a finding repeats, it is especially critical for the SEA to communicate with LEA officials to identify the barriers to resolution and determine appropriate corrective actions. However, only one of the three SEAs we audited focused on resolution of repeat findings; it did so primarily by enhancing its management decisions. The enhanced management decisions required LEAs to provide additional information and evidence about corrective actions taken for all repeat findings and required certification from the local school board's chairperson or designee. This new process placed extra emphasis on promptly correcting repeat findings and prevented LEAs from proposing the same corrective actions year after year without taking steps to implement them. Below is an excerpt from a management decision that the SEA issued for a repeat finding reported in FY 2014 that illustrates its new approach:

**This is a repeat of the condition noted in Finding 2013-03 from the prior year single audit and thus prior corrective action has been ineffective at eliminating this condition.** For this reason, [the SEA] requests that the LEA respond in writing to describe what efforts or plans have been made or will be made to eliminate future occurrences of this condition in addition to those described in the audit report. The LEA's response must (1) describe the additional corrective action proposed or taken since January 7, 2015 (i.e., the date of the Auditor's report) and (2) be signed by the Board Chair or designee. The LEA should provide documentation where available to support the claim that corrective action was implemented.

SEA officials stated that although this was a new initiative, LEAs were complying with the additional requirements and providing the requested information. The SEA also added a statement to its management decisions for first-time (nonrepeat) findings to advise LEAs of the new process for repeat findings.

**Issuing management decisions for financial statement findings.** SEAs can further safeguard Federal program funds from misuse or fraud by issuing management decisions for LEAs' financial statement findings to help ensure that the findings are corrected timely and appropriately. Each single audit finding is classified in the audit report as either a financial

statement finding or a Federal or State award finding. The Uniform Grant Guidance requires the SEA to issue management decisions for findings pertaining to the Federal awards it makes to LEAs and states that SEAs may, but are not required to, issue management decisions for financial statement findings. However, certain financial statement findings can adversely affect Federal program funds at LEAs. For example, an internal control weakness related to accounting processes, such as a lack of proper segregation of duties, may put Federal grant funds at risk of theft. Segregation of duties findings may be reported as Federal award findings or as financial statement findings. One SEA covered by our audits issued management decisions for all LEA findings, including financial statement findings. The SEA also included financial statement findings in its audit resolution tracking system. This may have helped to ensure that internal control weaknesses that could affect the administration of Federal awards were properly and timely resolved, regardless of how they were reported.

**Establishing an earlier single audit reporting deadline.** Requiring LEAs to submit single audit reports before the Federal regulatory deadline may result in more timely correction of single audit findings and help prevent repeat findings. The Federal regulatory deadline for an LEA to submit its single audit report is 9 months after the end of its fiscal year. The SEA then has 6 months from the date that the audit report is submitted to issue a management decision to the LEA for each applicable finding. These timeframes can result in a lag of 15 months between the end of the fiscal year in which the LEA's finding was reported and the LEA receiving a decision from the SEA on what corrective action is necessary. In some cases, the finding may repeat for a second or third year while the LEA waits for the SEA's decision.

One SEA covered by our audits required LEAs to submit single audit reports 4 months after the end of the fiscal year (which was 5 months before the regulatory deadline). The expedited collection of LEA audit reports resulted in LEAs receiving more timely direction from the SEA on the appropriateness of proposed corrective actions. Earlier reporting may have also resulted in more timely corrective action and repeat findings being prevented in some cases.

**Ensuring LEA action officials receive the management decision.** Addressing management decisions to LEA officials responsible for coordinating or implementing corrective actions or otherwise ensuring that these officials receive a copy of the SEA decision helps to ensure timely and appropriate action by LEAs.<sup>6</sup> One SEA covered by our audits issued management decisions to LEA superintendents but in most cases did not send a copy to LEA action officials. We interviewed officials responsible for implementing corrective actions at six LEAs in this State and found that officials at four of the LEAs were not aware of the significance of the management decision in the audit resolution process and did not recall receiving any management decisions from the SEA for their repeat findings. Another SEA issued management decisions directly to LEA action officials and sent a copy to the superintendent. LEA officials in this State were knowledgeable about the management decision and were actively engaged with the SEA in the audit resolution process.

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<sup>6</sup> In the three States covered by our audits, the LEA official responsible for overseeing the correction of audit findings was generally the finance officer, business office manager, or equivalent position.

## Recommendation

We recommend that the Chief Financial Officer—

- 1.1 Develop and issue detailed guidance to all SEAs describing their responsibilities for oversight of the LEA single audit resolution process. The guidance should include information regarding potential weaknesses that may require correction as well as positive practices that SEAs may consider implementing. At a minimum, the guidance should include the following elements.
  - a. Explain the requirement to issue management decisions for all applicable LEA findings within regulatory timeframes and describe the specific content requirements for management decisions from 2 C.F.R. § 200.521. Include an illustrative copy of a management decision that meets all content requirements to promote SEA compliance.
  - b. Emphasize the importance of identifying and requiring appropriate corrective actions for LEAs to take to resolve audit findings. Appropriate corrective actions are clear, specific, and can reasonably be expected to correct the underlying cause of the finding.
  - c. Urge SEAs to engage in proactive communication with LEAs throughout the audit resolution process. Inform States of the new requirement in 2 C.F.R. § 200.331(d)(2) to follow up on the status of corrective action and describe the benefits of using cooperative audit resolution techniques.
  - d. Emphasize the importance of enhancing audit resolution activities for significant or repeat findings. This includes escalating the frequency and nature of contact with LEA officials to identify and resolve any barriers to audit resolution.
  - e. Highlight critical controls over single audit resolution that all SEAs should implement, including (1) assigning overall responsibility for oversight of LEA audit resolution to a specific unit within the SEA, (2) developing and implementing detailed policies and procedures that cover all aspects of the SEA's role in LEA audit resolution, (3) establishing an effective process, preferably using database software, for tracking the resolution of LEA audit findings, and (4) implementing a periodic quality assurance process to detect noncompliance and control weaknesses.
  - f. Describe positive practices in oversight of LEA audit resolution that SEAs may implement where feasible, such as (1) issuing enhanced management decisions for repeat findings and encouraging more intensive interaction between SEAs and LEAs to ensure timely and appropriate corrective action, (2) issuing management decisions for financial statement findings and tracking their resolution, (3) establishing an early single audit reporting deadline to expedite the resolution process, and (4) targeting communications related to audit resolution to LEA action officials responsible for implementing corrective action.

### **OCFO Comments**

OCFO agreed with our results and recommendation. OCFO stated that it planned to form a work group that includes representatives from all Department offices that have a role in audit follow-up to develop guidance for SEAs related to single audit resolution.

### **Matter for Consideration: Department Monitoring of SEAs**

The Department relies primarily on the State-level single audit to identify SEAs that have weaknesses in carrying out their oversight of LEA single audit resolution. These weaknesses would typically be reported as subrecipient monitoring findings in the State-level single audit report. The Department is responsible for overseeing the resolution of single audit findings at SEAs that involve Federal education programs, and the State-level single audits provide an important control mechanism for the Department. However, these audits may not identify every State with oversight weaknesses. For example, the State single audit reports for Illinois, Massachusetts, and North Carolina did not include any findings related to the States' oversight of LEA single audit resolution during our audit period.<sup>7</sup>

The Department did not directly monitor LEA single audit resolution oversight activities carried out by SEAs during our audit period. In FY 2016, some Department program offices began to perform limited monitoring in this area. However, because the monitoring focuses on the resolution of Federal award findings related to specific education programs, the effectiveness of an SEA's oversight of LEA audit resolution as a whole may not be assessed. Additionally, only a limited number of SEAs are typically covered by a particular program office's monitoring unit each year. Individual program offices likely do not have the resources to conduct a complete assessment of each SEA's activities related to oversight of LEA single audit resolution.

As our individual State audit reports and this report show, ensuring that LEA single audit findings are corrected timely and appropriately is a critical function that protects Federal grant programs and taxpayer funds. The Department, SEAs, and entities charged with auditing this function at the State level must all do their part for oversight of LEA resolution activities to be effective. Therefore, we encourage OCFO to take a leadership role in ensuring that all functions and activities associated with overseeing LEA single audit resolution are fully implemented in the States. The first step would be to implement the recommendation in this report by issuing detailed guidance to all SEAs so that their oversight responsibilities are clear and can be fully implemented. OCFO could also perform an assessment of the relevant compliance requirements and suggested audit procedures in the Office of Management and Budget Compliance Supplement to ensure they provide clear and sufficient instruction to auditors reviewing an SEA's oversight activities. In addition, OCFO could explore mechanisms to communicate these audit requirements to the auditing community to help ensure adequate coverage of this critical SEA oversight function during each year's audit. Lastly, OCFO should collaborate with all program offices that award Federal grants to SEAs, and other Department stakeholders as warranted, to evaluate and identify ways to maximize the Department's own monitoring of SEA oversight of LEA single audit resolution activities.

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<sup>7</sup> The North Carolina single audit report contained a relevant finding that was reported as resolved in the year before the beginning of our audit period. According to the audit report, the North Carolina SEA had not issued management decisions for all LEA Federal award findings as required by Federal regulations.

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## OBJECTIVE, SCOPE, AND METHODOLOGY

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The objective of our report was to identify common weaknesses and positive practices that the Department should communicate to SEAs to improve oversight of LEA single audit resolution nationwide. We initiated this project based on the results of our audits of SEA oversight of LEA single audit resolution in Illinois, Massachusetts, and North Carolina (see report details in item 1 below).

To achieve our objective, we performed the following procedures:

1. Reviewed the following audit reports issued by the Department's Office of Inspector General to identify weaknesses, positive practices, and other relevant issues related to the SEAs' oversight of LEA single audit resolution.
  - a. "Illinois State Board of Education's Oversight of Local Educational Agency Single Audit Resolution," Control Number ED-OIG/A02P0008, November 7, 2016. This audit covered Illinois' activities related to the resolution of LEA single audit findings reported in FYs 2011–2014.
  - b. "Massachusetts Department of Elementary and Secondary Education's Oversight of Local Educational Agency Single Audit Resolution," Control Number ED-OIG/A09P0001, January 25, 2016. This audit covered Massachusetts' activities related to the resolution of LEA single audit findings reported in FYs 2011–2013.
  - c. "North Carolina Department of Public Instruction's Oversight of Local Educational Agency Single Audit Resolution," Control Number ED-OIG/A09P0005, August 26, 2016. This audit covered North Carolina's activities related to the resolution of LEA single audit findings reported in FYs 2012–2014.
2. Reviewed applicable sections of Circular A-133 and the Uniform Grant Guidance to gain an understanding of the oversight responsibilities of the Department and SEAs related to LEA single audit resolution, and to identify how the responsibilities may have changed as a result of the issuance of the Uniform Grant Guidance.
3. Interviewed officials with the Department's Office of Elementary and Secondary Education and Office of Special Education Programs to gain an understanding of the Department's current processes for monitoring SEA oversight of LEA single audit resolution.

We held an entrance meeting with OCFO's Post Audit Group on June 6, 2016, and an exit meeting on November 8, 2016. We conducted our work in accordance with the Council of Inspectors General on Integrity and Efficiency "Quality Standards for Inspection and Evaluation."



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## **ADMINISTRATIVE MATTERS**

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Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). An electronic copy of this report has been provided to your audit liaison officer.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on those audits or other OIG products with recommendations that remain unresolved after six months from the date of issuance.

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

If you have any questions, please call Raymond Hendren at (916) 930-2399.

Attachments

## **Attachment 1: Abbreviations, Acronyms, and Short Forms Used in this Report**

Audit finding	Compliance finding for a Federal education program reported in the single audit
C.F.R.	Code of Federal Regulations
Circular A-133	Office of Management and Budget Circular A-133
Department	U.S. Department of Education
FY	Fiscal Year
Green Book	U.S. Government Accountability Office's "Standards for Internal Control in the Federal Government"
LEA	Local Educational Agency
OCFO	Department's Office of the Chief Financial Officer
SEA	State Educational Agency
Uniform Grant Guidance	Title 2 of the Code of Federal Regulations

## Attachment 2: OCFO's Comments on the Draft Report



### UNITED STATES DEPARTMENT OF EDUCATION

#### OFFICE OF THE CHIEF FINANCIAL OFFICER

March 6, 2017

TO: Patrick J. Howard  
Assistant Inspector General for Audit

FROM: Tim Soltis /s/  
Delegated to Perform the Duties and Functions of the Chief Financial Officer  
Office of the Chief Financial Officer

Subject: Response to Draft Management Information Report on State Oversight of Local Educational  
Agency Single Audit Resolution  
Control Number ED-OIG/X09Q0006

We appreciate the opportunity to respond to your draft report titled, *Management Information Report on State Oversight of Local Educational Agency Single Audit Resolution*. We have carefully reviewed this document, and found the information contained therein to be consistent with that found in ED-OIG's previous reports issued for the state educational agencies (SEAs) of the State of North Carolina, the State of Illinois and the Commonwealth of Massachusetts.

We agree with the ED-OIG's recommendation that the Office of the Chief Financial Officer (OCFO) "develop and issue detailed guidance to all State Educational Agencies (SEAs) describing their responsibilities for oversight of the local educational agency single audit resolution process" and OCFO will develop a detailed guidance document for SEAs to fully describe their responsibilities in this area. OCFO plans to charter a workgroup with representation from all Offices involved in audit follow-up at the Department, including the Office of the General Counsel, the Risk Management Service and the various program offices that conduct resolution and closure for their respective programs. OCFO projects that a final draft of the guidance will be completed within six months of receipt of ED-OIG's final report, and that the guidance document will serve as evidence of completion for the required corrective action.

Again, thank you for your continued guidance and support. We greatly value our long-standing relationship with your office and the critical role you play in ensuring that both ED and SEAs comply with the Single Audit Act.

cc: Ray Hendren

550 12th St. S.W., WASHINGTON, DC 20202

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